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MATTERS RELATING TO ARRANGEMENTS FOR THE FINANCIAL MECHANISM AND FOR TECHNICAL AND FINANCIAL SUPPORT TO DEVELOPING COUNTRY PARTIES

IMPLEMENTATION OF ARTICLE 11 (FINANCIAL MECHANISM), PARAS. 1-4

Submissions from Parties or other member States on the specific near-term priorities and needs of developing countries, adaptation and issues related to the financial mechanism

Note by the interim secretariat

The Committee at its ninth session concluded that member States wishing to provide proposals on issues related to the financial mechanism for consideration by the Committee at its tenth session could do so in written form. Such submissions were to reach the interim secretariat by 30 May 1994 (A/AC.237/55, para. 91). In this regard, submissions were accordingly received from Finland and Sweden.

Considering the interrelationship of issues being addressed under the financial mechanism by the Committee, submissions received from Governments or groups thereof on specific near-term priorities and needs of developing countries and on adaptation have also been reproduced in this document.

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The submission from Antigua and Barbuda is in relation to the specific near-term priorities and needs of developing countries (see A/AC.237/69). The submission from Trinidad and Tobago (on behalf of the Alliance of Small Island States) is also relevant.

Australia and New Zealand, and Trinidad and Tobago (on behalf of the Alliance of Small Island States) have responded to the request by the Committee for information on the meaning of adaptation and the particular measures which might be considered (A/AC.237/55, para. 89).

Written statements on issues related to the financial mechanism that were provided to the Committee at its ninth session by Algeria (on behalf of the Group of 77 and China), Argentina, Australia, Canada, France, India, Poland (on behalf of several Annex I countries with economies in transition to a market economy) and the United States of America have also been reproduced.

These submissions are attached, and in accordance with the procedure for miscellaneous documents, are reproduced in the language(s) in which they were received.

Any further submissions will be issued in an addendum or in addenda to the present note.

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A. Specific near-term priorities and needs of developing countries

PAPER NO. 1: ANTIGUA AND BARBUDA

The Intergovernmental Negotiating Committee for a Framework Convention on Climate Change (INC/FCCC), at its ninth session, requested Governments to provide the interim secretariat with information on specific near-term priorities and needs of developing countries in relation to funding under the financial mechanism of the Framework Convention on Climate Change. Moreover, the Committee noted that such priorities and needs should be related to the programme priorities identified as follows:

> "Priority should be given to the funding of agreed full costs (or agreed full incremental costs as appropriate) incurred by developing country Parties in complying with their obligations under Article 12.1 and other relevant commitments under the Convention. In the initial period emphasis should be placed on enabling activities undertaken by developing country Parties, such as planning, endogenous capacity building including institutional strengthening, training, research and education, that will facilitate implementation, in accordance with the Convention, of effective response measures" (A/AC.237/55, para. 80).

Against this backdrop, Antigua and Barbuda wishes to draw the attention of the interim secretariat to the Programme of Action for the Sustainable Development of Small Island Developing States, adopted by the international community at the First Global Conference for the Sustainable Development of Small Island Developing States.* It contains a number of priority areas related to planning, endogenous capacity building including institutional strengthening, training, research and education, which will, inter alia, facilitate the implementation of effective response measures at the national, regional and international levels.

Antigua and Barbuda is of the view that, in considering the specific near-term priorities and needs of the small island developing States, the priority areas contained in the aforementioned Programme of Action should be used as a basis. In this regard, the attention of the interim secretariat is drawn to the following chapters of the Programme of Action for the Sustainable Development of Small Island Developing States:

Chapter 1: Climate Change and Sea Level Rise
Chapter 2: Natural and Environmental Disasters
Chapter 3: Management of Wastes
Chapter 4. Coastal and Marine Resources
Chapter 7: Energy Resources

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* See report of the Global Conference for the Sustainable Development of Small Island Developing States, Bridgetown, Barbados, 26 April to 6 May 1994.

Chapter 10: National Institutions and Administrative Capacity
Chapter 11: Regional Institutions and Technical Cooperation
Chapter 12: Transport and Communication
Chapter 13: Science and Technology
Chapter 14: Human Resource Development

It is the view of the Government of Antigua and Barbuda that the near-term specific needs of island-States can be fully gleaned from these nine chapters.

PAPER NO. 2: FRANCE

QUESTIONS RELATIVES AUX DISPOSITIONS PRISES CONCERNANT LE MECANISME FINANCIER ET L'OCTROI D'UN CONCOURS TECHNIQUE ET FINANCIER AUX PAYS EN DEVELOPPEMENT PARTIES A LA CONVENTION

Application de l'article 11 (Mécanisme financier)

Par une lettre datée du 16 août 1993, la délégation de la **France** a demandé au secrétariat de faire circuler le document reproduit ci-dessous.

Priorités et critères pour le financement des mesures de prévention liées à la mise en oeuvre de la convention sur les changements climatiques à travers la procédure du Fonds pour l'Environnement Mondial

I – Considérations générales: additionnalité et coûts d'apprentissage:

La convention sur les changements climatiques a prévu que soit apportée une aide additionnelle pour financer dans des pays en développement des projets qui entrent dans son champ d'application. Cette additionnalité est justifiée par la nécessité pour ces pays de disposer de moyens nouveaux pour mener des politiques environnementales qui apportent des bénéfices globaux sans pour autant pénaliser leur propre développement.

Le principe d'additionnalité repose donc sur un constat d'antinomie entre les préoccupations de développement et de protection de l'environnement global.

Bien que, de l'opinion de nombreux experts, ces préoccupations ne soient pas nécessairement contradictoires, l'avis reste largement partagé que les actions qui doivent être engagées dans le cadre d'un programme mondial de limitation de l'effet de serre impliquent un surcoût, tout au moins dans une phase transitoire.

Il ne s'agit pas là d'une contradiction pérenne puisque les surcoûts généralement évoqués devraient se réduire, voire parfois même s'annuler après une période plus ou moins longue d'apprentissage. Ces surcoûts ne sont pour une bonne part que le reflet d'un défaut d'internalisation dans l'économie des atteintes à l'environnement.

Dans ce contexte, le but des financements qui doivent être mis en place dans le cadre du Fonds pour l'Environnement Mondial doit bien être d'assurer, à travers une période d'apprentissage technique, économique et social, une meilleure synergie entre développement local et protection de l'environnement global.

Dans une telle logique, la "totalité du surcoût environnemental agréé" ("full agreed incremental cost") doit être le plus souvent considérée comme un coût transitoire, lié aux différents apprentissages cités plus haut.

Dans ces conditions, le FEM aurait notamment pour rôle d'assurer le financement de l'apprentissage des mesures techniques, économiques, fiscales, réglementaires et institutionnelles susceptibles de conduire à terme à une meilleure adéquation entre le portefeuille des opérations prioritaires de développement d'un pays ou d'une région et le portefeuille des opérations prioritaires d'économies d'émission de gaz à effet de serre.

Le FEM ne doit donc pas être uniquement considéré comme un mécanisme de financement de surcoûts récurrents liés aux préoccupations d'environnement global mais aussi comme un mécanisme incitatif destiné à induire à terme des politiques de développement compatibles avec ces préoccupations.

Le fait que l'on se trouve dans une phase transitoire nous place dans une situation dynamique et non pas statique qui ne peut manquer d'avoir des répercussions importantes sur les modes d'action, les priorités et les critères d'éligibilité de projets ou de programmes de coopération dans le domaine de la lutte contre le réchauffement du climat.

II – Priorités d'action pour le FEM:

II/1 – La notion de programme:

Le concept de projet ponctuel justifié pour la phase pilote du FEM n'est plus adapté à la nouvelle situation, caractérisée par la nécessité de soutenir la dynamique d'apprentissage technique, économique et social dans chacun des pays ou régions concernés.

A la notion de projet doit se substituer celle de programme, avec ce que cette notion recouvre de globalité, de volonté de planification, de cohérence et de continuité.

La notion de programme recouvre à la fois une suite d'opérations enchaînées, plus ou moins répétitives et un faisceau d'actions parallèles dans divers secteurs, techniques, économiques, institutionnels et sociaux.

Dans un tel contexte, il apparaît important d'utiliser une part des ressources du FEM pour la mise en place de capacités locales d'expertise, d'innovation et d'animation tant technique qu'administrative ("capacity building"). C'est en effet une condition majeure du succès, de la pérennité de l'action et de sa cohérence dans les contextes économiques politiques et sociaux locaux.

II/2 – La logique des programmes:

Compte tenu des considérations précédentes, les programmes doivent avoir pour but principal la mise en place des moyens nécessaires pour résoudre les problèmes techniques, économiques, financiers, sociaux et institutionnels qui s'opposent de manière transitoire, à l'émergence de filières de développement respectueuses de l'environnement global.

Un programme ne peut donc pas être la simple addition d'opérations d'investissement, mais doit au contraire se présenter comme l'articulation cohérente des différentes phases d'un processus qui conduit de la démonstration d'une technologie à faible intensité d'émission de gaz à effet de serre jusqu'à son acceptation par les mécanismes normaux du marché dans un contexte économique et social spécifique à chacun des pays concernés.

Pour y parvenir, il faudra donc faire appel à une large palette de procédures diverses adaptées aux différentes facettes de l'apprentissage recherché:

- procédures d'aide à la constitution et à l'entretien d'une capacité technico-économique et administrative locale, et à la formation,

- procédures d'aide aux études préalables à la définition des stratégies sectorielles les plus pertinentes,

- procédures d'aide à l'expérimentation technique et sociale sur le terrain des mesures préconisées,

- procédures d'aide à la coopération technique et au transfert technologique,

- procédures de subventions, pendant une période de temps limitée, à l'implantation de matériels performants.

A ce propos, il convient d'insister sur la nécessité d'inclure dès l'origine un système d'évaluation continu et de diffusion des résultats pour chacune de ces procédures.

L'ensemble de ces procédures fait donc appel à une conjonction de mesures d'assistance technique et d'aide à l'investissement.

II/3 – Contenu thématique des programmes:

L'objectif de lutte contre l'augmentation de l'effet de serre doit s'articuler autour d'une double stratégie de précaution:

- adopter dès maintenant des mesures qui permettent de diminuer l'intensité spécifique d'émission des différentes activités humaines dans les meilleures conditions économiques et sociales (par exemple les mesures d'efficacité énergétique) pour ralentir le rythme des émissions, ajourner le réchauffement prévisible et donc gagner du temps,

- faire émerger des technologies de substitution qui ne produisent pas de gaz à effet de serre et dont la mise en place à plus long terme permettra une véritable action de prévention contre le réchauffement planétaire.

A/ Gagner du temps:

Dans la première catégorie de mesures "gagner du temps", on peut citer:

- l'amélioration de l'efficacité énergétique (transport, distribution et surtout usage final de l'énergie),

- l'usage de sources d'énergie réduisant les émissions de CO_2, de méthane et des précurseurs de l'ozone troposphérique,

- la réduction des émissions de méthane et des précuseurs de l'ozone troposphérique (traitement des déchets organiques, récupération du méthane des mines de charbon, diminution des fuites de distribution du gaz naturel, etc),

- la séquestration des gaz à effet de serre (lutte contre la déforestation et contre le déstockage du carbone des sols, stockage organique du CO_2).

B/ Faire émerger des filières de substitution:

Dans la deuxième catégorie "faire émerger des technologies de substitution", on trouve essentiellement le recours aux énergies renouvelables (solaire thermique et photovoltaïque, éolien, nouveaux vecteurs issus de la biomasse, géothermie, etc).

Il apparaît comme logique de consacrer une part majeure de l'action à la première catégorie de mesures à terme rapproché, par exemple 75% à 80% de l'effort et d'en réserver 20 à 25% au soutien des filières de substitution qui devront progressivement prendre le relais des précédentes.

II/4 – Les priorités sectorielles:

Une attention particulière doit être porté aux réductions des émissions dans les domaines suivants:

- les transports de personnes et de marchandise dont la participation à l'augmentation des émissions de gaz à effet de serre est en croissance rapide,

- le développement de l'efficacité des usages de l'électricité, actuellement produite essentiellement à partir de combustibles fossiles,

- les pratiques agricoles et les usages énergétiques du bois, lorsqu'ils sont compatibles avec une gestion durable des surfaces boisées et lorsque les technologies de combustion utilisées permettent un bilan positif vis-à-vis de l'émission de gaz à effet de serre, en relation avec le maintien ou l'augmentation du stock de carbone des espaces concernés.

III – Critères d'éligibilité:

La plupart des critères de sélection développés par le STAP pour la phase pilote du FEM restent valables pour sélectionner les programmes et en particulier:

- conduire à un bénéfice pour l'environnement global en terme de réduction des émissions de gaz à effet de serre,

- se fonder sur des bases scientifiques et techniques saines,

- présenter les caractéristiques d'efficacité économique requises,

- s'inscrire dans un programme national ou régional cohérent concernant les problèmes de développement et d'environnement local et global,

- favoriser le développement d'une capacité technique, économique et administrative locale.

Il convient d'insister sur la nécessité de vérifier que les programmes contribueront à moyen terme au double objectif de développement et de protection de l'environnement. A ce propos, il faut souligner que les opérations de réduction des émissions à moindre surcoût immédiat ne sont pas forcément les plus judicieuses au regard de leur impact à moyen terme sur l'environnement et le développement.

(Unofficial translation from French)

PRIORITIES AND CRITERIA FOR FINANCING THROUGH THE GLOBAL ENVIRONMENT FACILITY PREVENTION MEASURES LINKED WITH THE IMPLEMENTATION OF THE CONVENTION ON CLIMATE CHANGE

I. General considerations: additionality and apprenticeship costs:

The Convention on Climate Change provides that additional assistance should be given to finance projects in developing countries which come within its purview. This additionality is justified by the need for these countries to have access to new resources to apply environmental policies which provide global benefits without penalizing their own development.

The principle of additionality is thus based on an apparent conflict between development concerns and concerns for the protection of the global environment.

Although, in the opinion of many experts, such concerns are not necessarily contradictory, there is a widespread view that the actions which must be undertaken within the framework of a global programme to limit the greenhouse effect imply an incremental cost, at least in a transitional phase.

This is not a long-term contradiction, since the incremental costs usually cited should be reduced, or even sometimes nullified, after a longer or shorter period of apprenticeship. To a major extent, these incremental costs are but the reflection of a failure to incorporate adverse environmental effects into the economy.

In this context, the purpose of the financing mechanisms to be established within the framework of the Global Environmental Facility must be to ensure, through a period of technical, economic and social apprenticeship, a better synergy between local development and the protection of the global environment.

Within this logic, the "full agreed incremental cost" should usually be regarded as a transitory cost, linked to the various forms of apprenticeship mentioned above.

In these circumstances, the role of the GEF will be largely to ensure financing of the process of gaining experience of the technical, economic, fiscal, regulatory and institutional measures likely to lead, in due course, to a more adequate balance between the portfolio of priority operations to reduce greenhouse gas emissions.

The GEF should, therefore, be regarded not only as a mechanism for financing recurrent incremental costs linked with global environmental concerns but also as an incentive mechanism designed to encourage future development policies that are compatible with these concerns.

The fact that this is a transitional phase means that we are in a dynamic rather than a static situation which cannot but have major impacts on modes of action, priorities and criteria for the eligibility of cooperation projects or programmes in the area of combating climate warming.

II. Priority actions for the GEF:

II/1 The programme concept:

The concept of the specific project, which was justified for the pilot phase of the GEF, is no longer adapted to the new situation, characterized as it is by the need to support the dynamic of technical, economic and social apprenticeship in each of the countries or regions concerned.

The project concept must be replaced by the programme concept, with all that the latter implies of comprehensiveness, planning intent, coherence and continuity.

The programme concept covers both a series of linked operations, which are more or less repetitive, and a set of parallel actions in various technical, economic, institutional and social sectors.

In such a context, it appears important to use some of the GEF resources for capacity building in terms of expertise, innovation and stimulation, both technical and administrative. This is, in fact, a major prerequisite for the success and long-term effectiveness of the action and for its coherence in the local economic, political and social contexts.

II/2 The logic of the programme:

In the light of the preceding considerations, the main purpose of the programmes should be to apply the necessary resources to resolve the technical, economic, financial, social and institutional problems which, during a transitional period, hamper the emergence of development processes respectful of the global environment.

A programme cannot thus be the simple summation of investment operations but must, on the contrary, be a coherent articulation of the various phases of a process leading from the demonstration of a technology with a low intensity of greenhouse gas emissions to its acceptance by the normal market machinery in an economic and social context specific to each of the countries concerned.

If this is to be achieved, use will have to be made of a wide range of diverse procedures adapted to the various facets of the desired learning process:

Procedures to assist in building up and maintaining a local technico-economic and administrative capacity and in training courses,

Procedures to assist preliminary studies to define the most appropriate sectoral strategies.

Procedures to assist technical and social experimentation in the field, using the measures recommended.

Procedures to assist technical cooperation and the transfer of technology, and

Procedures to subsidize, over a limited period of time, the introduction of efficient equipment.

In this connection, the need must be emphasized of including from the very outset a system of ongoing evaluation and results circulation for each of these procedures.

The set of these procedures will thus require a combination of technical assistance and capital assistance measures.

II/3 Thematic content of the programme:

The objective of controlling the increase in the greenhouse effect must be centred upon a dual precautionary strategy:

The immediate adoption of measures to reduce the specific emission levels of the various human activities in optimum economic and social circumstances (e.g. energy efficiency measures) so as to slow down the emission rate, postpone the foreseeable warming and thus gain time, and

The development of substitute technologies which do not produce greenhouse gases and whose installation in the longer term will render possible a genuine action to prevent global warming.

A. Gaining time

In the first category of measures, "to gain time", we may mention:

Improving energy efficiency (the transmission, distribution and, most of all, the end use of energy),

The use of energy sources that reduce emissions of CO_2, methane and the precursors of tropospheric ozone,

Reduction in emissions of methane and the precursors of tropospheric ozone (processing of organic waste, recovery of methane from coal mines, reducing leaks from the distribution of natural gas, and so forth), and

Control of greenhouse gases (combating deforestation and destocking of soil carbon, organic storage of CO_2).

B. Development of replacement technologies:

In the second category "developing replacement technologies" we find essentially the use of renewable forms of energy (photovoltaic solar and thermal energy, wind energy, new vectors derived from the biomass, geothermal energy, etc.).

In the short term, it would seem logical to devote a major part of the action to the first category of measures, e.g. 75 to 80 per cent of efforts, and to reserve 20 to 25 per cent for the support of substitute technologies which should gradually take over from the preceding.

II/4 Sectoral priorities:

Particular attention should be paid to reducing emissions in the following areas:

The transport of people and goods, whose share of the increase in greenhouse gas emissions is growing rapidly,

Improving the efficiency of the use of electricity which is, at present, essentially produced from fossil fuels, and

Agricultural practices and the use of wood for energy, where this is compatible with sustainable management of the woodlands and where the combustion technologies used produce a positive balance vis-à-vis greenhouse gas emissions, combined with the maintenance or increase of the carbon stock of the areas concerned.

III. Eligibility criteria:

Most of the selection criteria developed by the STAP for the pilot phase of the GEF remain valid for choosing the programmes and, in particular:

Having beneficial effect on the global environment in terms of reducing greenhouse gas emissions,

Being based on sound technological and scientific foundations,

Presenting the economic effectiveness characteristics required,

Fitting into a coherent national or regional programme dealing with development problems and local and global environmental problems, and

Promoting the development of a local technical, economic and administrative capacity.

It is essential to verify that the programme will, in the medium term, contribute to the dual objective of development and protection of the environment. In this connection, it should be emphasized that emission-reduction operations having a lower immediate incremental cost are not necessarily the most judicious ones with respect to their medium-term impact on the environment and development.

PAPER NO. 3: UNITED STATES OF AMERICA

PROGRAMME PRIORITIES

We listened very carefully to the French proposal yesterday. We find it interesting and will give it further study. On the other hand, we have developed a somewhat more general proposal regarding program priorities for the financial mechanism under the Convention.

We propose the following four program priorities for the financial mechanism. In our view, funding priority should be given to projects that:

1) form part of a national climate change mitigation strategy

2. are cost-effective and sustainable

3) promise to be replicable and lead to wider application

4) leverage funds from other sources

Mr. Chairman, we think that it is a matter of urgency for countries to identify their own priorities for responding to climate change, and to fit those priorities into a national framework. We recognize that this will take time. Still, projects that form part of a national climate change mitigation strategy should, in our view, be accorded priority by the financial mechanism.

As we have stated in the past, including during this Committee's 8th Session, we think that projects should be cost-effective and sustainable.

We think that projects that promise to be replicable or duplicable within a country and in other countries, thereby leading to wider application, should also be given priority by the financial mechanism. We seek to create a cascading effect in which such investments by the financial mechanism would lead the way to wider acceptance and application.

Finally, Mr. Chairman, we recognize that the funds available under the financial mechanism will be limited, and will form only a fraction of the total resources summoned to combat the threat of climate change and simultaneously promote sustainable development. For this reason, we think it vital that the financial mechanism serve to leverage other funds as fully as possible, and that priority be given to projects that do so.

B. Adaptation

PAPER NO. 1: AUSTRALIA/NEW ZEALAND

Introduction

Recognition of the potential adverse effects of climate change is contained in the United Nations Framework Convention on Climate Change ("the Convention").

General international acceptance of the importance of, and need for, adaptation as part of the overall response to climate change is also reflected in the Convention. In accordance with Article 4.1, 4.3 and 4.4, Parties are to develop and implement measures to facilitate adequate adaptation, as well as cooperate in preparing for adaptation, and for Annex II Parties to assist developing countries adapt to the adverse effects of climate change, with particular attention to those developing countries most vulnerable.

The INC at its 9th session requested Parties to provide information and analysis on the meaning of adaptation, including preparation for and facilitation of adaptation. This would contribute to a better understanding of the range of issues and funding decisions under Article 11 associated with adaptation.

What is adaptation ?

Australia and New Zealand interpret "Adaptation" in the context of the Convention as "purposeful and deliberate activity in response to, or in anticipation of the impacts of climate change" resulting from anthropogenic greenhouse gas emissions, and refers to adaptation measures undertaken by humans (as opposed to natural processes of adaptation).

Is an adaptation response required ?

The precautionary principle is acknowledged in the Convention in Article 3.3 and is a basis for action on adaptation. Article 3.3 notes that Parties should take precautionary measures to anticipate, prevent or minimize the causes of climate change and mitigate its adverse effects, and that lack of full scientific certainty should not be used as a reason for postponing such measures.

Due to the uncertainty involved in predicting the rate and magnitude of the impacts of climate change, specific adaptation activities may be difficult to define precisely. However, scenarios of general trends and of areas of vulnerability provide a basis to undertake planning, and actual measures in some cases, for adaptation. For example, sea-level rise is one of the better defined consequences of global warming and will affect the coastal zones of around 180 nations and territories (Eid and Hulsbergen, 1991), although the exact level of rise is not yet known.

Adaptation and emissions limitation responses should be considered part of an integrated response package to climate change. A complementary approach will provide the most effective means for dealing with climate change. If appropriate mitigation and adaptation measures are undertaken now, future costs of dealing with the consequences of climate change may be reduced. These costs, environmental, social and economic, are potentially significant, e.g., if viewed in terms of the effect of sea-level rise on small island states. General planning, for sea-level rise is therefore appropriate and some relevant coastal zone management measures may be desirable even at this early stage.

Regardless of the effectiveness of emissions limitations measures undertaken now, the time lags between greenhouse gas emissions, their atmospheric lifetimes and climate change effects, mean the world's climate may already be committed to a certain degree of change, to which some adaptation may be required.

Facilitating adaptation measures

Australia and New Zealand support the provision of assistance for adaptation activities and at this time accord high priority particularly to adaptation planning and capacity building activities. In this context, Australia and New Zealand were pleased with the progress of the debate on this issue at INC 9. Funding of measures covered by Article 4.1 are eligible for funding through the financial mechanism in accordance with Article 4.3. This will have the benefit of facilitating consideration of the scope and need for future adaptation funding.

One important element of the adaptation debate will be uncertainty in identifying which problems are caused by global climate change and which are the result of ongoing natural processes or phenomena. This uncertainty will have implications for determining which activities should be funded by national governments and which should be addressed through other mechanisms, including the provisions of the FCCC. These questions require detailed consideration.

Australia and New Zealand suggested at INC 9 that the INC/COP needed to develop a process or strategy for dealing with adaptation-related issues. Such a process or strategy needs to address complex issues including the scope of adaptation, the development of policies to guide planning and capacity building activities and possible future adaptation response measures. Attachment A provides some initial ideas towards developing a policy framework on adaptation.

Australia and New Zealand support the provision of assistance for agreed high priority adaptation activities. At this time, we accord high priority to adaptation planning and capacity building activities and for the present, decisions related to funding of adaptation activities beyond planning and capacity building should be left open, and at this time any funding could be provided through other channels, consistent with Article 11.5.

- Work is already being funded through regional and multilateral funding bodies (e.g., the Asian Development Bank), in areas such as coastal zone management, which also provide adaptation benefits. Bilateral funding is also assisting in this way, through projects such as the Asean-Australian Marine Science Project: Living Coastal Resources.

In order to minimize the need for future adaptation funding, Parties should keep in mind the value of decreasing vulnerability to impacts of climate change. In this respect, Article 4.1(f) of the Convention commits Parties to take climate change considerations into account to the extent feasible into relevant social, economic and environmental policies and actions, and to employ methods such as impact assessments to minimize adverse effects of climate change. This could be achieved by, inter alia, incorporating climate change risk assessment into development planning processes.

Conclusion

A policy framework for addressing adaptation should be developed by the INC/COP, to deal with:

- developing an agreed definition of adaptation;
- implementing short term adaptation activities;
- continuing research into potential impacts and priority given to identifying areas of high risk and vulnerability;
- the longer term scope of adaptation; and
- the identification, possible implementation and funding of measures to reduce vulnerability and prepare for adaptation as a longer term response.

The emphasis in the short term should be on emissions limitation across all relevant sectors, combined with an initially limited and focused set of adaptation actions, e.g., planning measures, capacity building and institutional strengthening.

Australia and New Zealand are committed to working cooperatively with other Parties to the FCCC to find agreed means of dealing with the adaptation issue. We recognize the prime importance of this question for many countries, especially small island developing states. We believe it is important for a practical and pragmatic way forward to be identified as soon as possible.

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Attachment A

This attachment represents initial Australian and New Zealand views on elements of adaptation which need to be addressed in detail. It is intended to complement the views expressed in the preceding paper, but does not address the complex questions associated with interpretation of adaptation within the FCCC. It identifies considerations, primarily of a scientific nature, which should be explored both within an FCCC context and by other bodies such as the IPCC.

A possible approach to adaptation

Preparing for adaptation should involve

- Identifying possible impacts of climate change
- Identifying areas of particular vulnerability to climate change impacts
- Developing climate change adaptation policies, strategies and measures. Identifying climate change impacts (underline four).

The most authoritative source of material on the potential impacts of climate change currently available is the Working Group II First Assessment Report (1990) and the 1992 update of the Intergovernmental Panel on Climate Change (IPCC).

The potential impacts of climate change will be of either a positive/beneficial nature, or will have adverse environmental, social and economic effects at either the local, regional, national and/or international level. These could include:

- temperature changes
- rainfall pattern changes and
- changes in the incidence and magnitude of extreme events/natural disasters

Sea-level rise is a consequence of these impacts. The above changes would affect a range of natural environments and human spheres of activity, including:

- coastal areas
- natural terrestrial ecosystems
- agriculture, forestry and fisheries
- hydrology and water resources and
- human settlements, energy, transport, and industrial sectors, human health and air quality

Regions of particular vulnerability to climate change impacts of relevance in discussing impacts, and subsequent adaptation measures in relation to the needs of developing countries under the Convention, are the findings of the IPCC Working Group II on impacts (1990):

- "In many cases, the impacts of climate change will be felt most severely in regions already under stress, mainly the developing countries;" and
- The most vulnerable human settlements are those especially exposed to natural hazards, e.g., coastal or river flooding, severe drought, landslides, severe storms and tropical cyclones."

Article 4.8 of the Convention acknowledges the specific needs and concerns of developing country Parties arising from the adverse effects of climate change, including small island countries and countries with low-lying coastal areas.

Developing climate change adaptation strategies

IPCC Working Group III on responses (1990) concluded that:

> "Consideration of measures to reduce the impacts of global climate change should begin as soon as possible, particularly in regard to disaster preparedness policies, coastal zone management and control measures for desertification, many of these being justified in their own right. Measures to limit or adapt to climate change should be as cost-effective as possible while taking into account important social implications.

Assessing areas at risk from sea level rise and developing comprehensive management plans to reduce future vulnerability of populations and coastal developments and ecosystems as part of coastal zone management plans should begin as soon as possible."

An effective approach to adapting to the potential impacts of climate change will require both short/medium and long term strategies.

In the short/medium term, priority should be given to early implementation of planning for adaptation. Measures which have other benefits, such as capacity building and institution strengthening, should also be pursued. Other measures could involve research (improving the knowledge base on climate change impacts) and monitoring; education; and risk assessment.

As part of a long term strategy to minimize possible climate change impacts in developing countries, particularly those with economies heavily reliant on natural resources/primary production, Australia – and New Zealand – note–s– the importance of diversification of countries' economic base. As previously mentioned, many countries recognized as vulnerable to climate change impacts include those with economies in this category. Other specific adaptation measures may also be identified in the future. Technology transfer, including improved agricultural and plant breeding techniques, are likely to be useful. Increasing research efforts in this area could result in long-term benefits.

To date, work on adaptation, including developing options, has centred on coasts and terrestrial resource use and management. Some examples are provided below.

Coasts

The current focus of climate change impacts work in coastal areas has been sea leve lrise, as this is recognized as having direct effects on human habitation. Three main types of

activity have been identified by the IPCC for consideration as adaptive responses to sea level rise:

- Retreat – provide for people and ecosystems to move inland. This option is only feasible where there is a suitable "inland" to which retreat is possible. For many small island communities and continental coastal communities this option is unrealistic.

- Accommodate – no attempt to protect an area at risk, but measures taken would allow for continued habitation or use, eg, elevating buildings on pilings, or converting agriculture to fish farming.

- Protect – uses site specific features such as sea walls, dikes, dunes and vegetation to protect the area.

In addition, small island states themselves have identified the need to decrease vulnerability to climate change impacts as another adaptive response. Decreasing vulnerability could include preventing the mining of coral and preventing the clearing of mangroves, both of which act as a buffer zone against incidents such as storm surges.

It is likely that impacts other than sea level rise, such as storm surges, salt water intrusion, effects on fisheries and natural features such as coastal wetlands, will also have a significant effect on human use of the coastal zone. The emphasis on adaptation to coastal impacts has therefore moved to integrated coastal zone planning.

Terrestrial resource use and management

The main emphasis of adaptation in both resource use and management and coastal activities is to ensure food security, conserve biological diversity, maintain water supplies and promote ecologically sustainable land management practices. As the impacts of climate change are less understood in the areas of terrestrial resource use and management than coasts, adaptation measures are less well developed.

Measures that could be considered include:

- Development and adoption of technologies which may increase the productivity of crops, forests, livestock, and fisheries; and

- promoting and strengthening resource conservation and sustainable use, eg, reforestation and afforestation.

PAPER NO. 2: TRINIDAD AND TOBAGO

(on behalf of the Alliance of Small Island States (AOSIS))

The urgent need to implement measures for adapting to predicted sea level rise due to accelerated climate change has been confirmed by the international scientific community in the reports of the Intergovernmental Panel on Climate Change (IPCC) Working Groups on Impacts and on Response Strategies. The IPCC, under the general rubric of Integrated Coastal Zone Management, has identified a detailed series of response measures ranging from preparatory activities, such as vulnerability assessment, to the adaptive responses of retreat, accommodation and protection. Many of these activities are to some degree already being undertaken in the national and regional development plans of the small island developing States that are particularly vulnerable to the adverse effects of climate change.

In Chapter 17, Section G of Agenda 21, the international community declared its political commitment to promote the protection of the coastal zones of small island developing States from sea level rise. In Chapter 1 of the Programme of Action, adopted at the First Global Conference for the Sustainable Development of Small Island Developing States, the international community renewed its commitment to support these States in "responding to the call by the IPCC for vulnerable coastal nations to develop integrated coastal zone management plans, including the development of adaptive response measures to the impacts of climate change and sea level rise."

The U.N. Framework Convention on Climate Change establishes a legal and institutional framework for responding to global climate change and its adverse effects, through the promotion of measures aimed at mitigating emissions of greenhouse gases and preparing for adaptation to the adverse effects of climate change. Moreover, the Convention legally commits developed country Parties to provide financial and technical support to the developing country Parties for adaptation measures.

At its ninth session, the Intergovernmental Negotiating Committee (INC) requested the submission of views on the formulation of comprehensive strategies and measures including preparation for, the facilitation of and the collection of information on, adaptation to climate change that would contribute to a better understanding of the range of issues associated with the development of methodologies to facilitate adequate adaptation to climate change.

The States members of the Alliance of Small Island States (AOSIS) welcome this opportunity to present its initial views on adaptation, in the hope that these views will serve as a basis for further elaboration by the INC at its tenth session. These views

complement the positions set forth by AOSIS in its submission to the secretariat on the need to strengthen commitments under the Convention to mitigate emissions of greenhouse gases. Parties to the Convention must recognize that the best way to limit adaptation costs is by rapidly and responsibly mitigating the threat to the global climate system caused by growing concentrations of greenhouse gases in the atmosphere. All Parties must also recognize, however, that as long as mitigation commitments continue to be inadequate, adaptation costs must remain a priority.

Scope of adaptation measures

Article 4.1 of the Convention requires all Parties to take measures to prepare for and facilitate adaptation to climate change, including:-

- the formulation and implementation of national programmes containing measures to facilitate adequate adaptation to climate change (Article 4.1(b));

- the development and elaboration of integrated coastal zone management plans (Article 4.1(e));

- the promotion of sustainable management of coastal and marine ecosystems (Article 4.1(d)); and

- the promotion of research and systematic observation of the effects of climate change (Article 4.1(g)).

In addition, Article 4.4 of the Convention states that developed country Parties and other developed Parties included in Annex II of the Convention shall also assist the developing country Parties that are particularly vulnerable to the adverse effects of climate change in meeting costs of adaptation to those adverse effects.

Categories of adaptation measures

An examination of Articles 4.1 and 4.4 suggests that the adaptation measures contemplated under the Convention fall into three general categories, namely:-

(i) research, planning and systematic observation, including the preparation of integrated coastal zone management plans and the monitoring of both the adverse effects of climate change and the effects of adaptive response measures;

(ii) structural adaptive responses that facilitate adaptation to climate change, such as retreat, accommodation and protection from anticipated sea level rise, wave and storm surges; and

(iii) adaptation to the adverse effects of climate change such as evacuation, land reclamation, disaster relief and reconstruction.

Priority areas for adaptation

The Convention does not elaborate specifically what types of measures are contemplated under Article 4.1. However, Chapters 1 and 3 of the Programme of Action for the Sustainable Development of Small Island Developing States, adopted by the international community at the First Global Conference for Small Island Developing States, identify a number of initiatives at the national, regional and international levels, which can and should be used as the basis for identifying priority areas for adaptation for the short-medium and long-term.* In addition, the political statement and action programme of the World Coast Conference 1993 also identified a number of priority areas related to integrated coastal zone management which can form the basis for the development of specific programme areas related to adaptation.

The scope of funding for adaptation costs

Under Article 4.3, developed country Parties must provide new and additional financial resources to meet the agreed full incremental costs incurred by developing country Parties in implementing all the measures covered by Article 4.1, including measures to facilitate adequate adaptation. These measures must be agreed between the developing country Party and the entity or entities operating the financial mechanism of the Convention.

Under Article 4.4, developed country Parties must also assist particularly vulnerable developing country Parties in meeting cost of adaptation to the adverse effects of climate change. While it is true that the Article 4.4 commitment is not linked textually to the funding source identified in Article 4.3, it remains a specific and legally binding financial obligation that must be honoured by Annex II country Parties and that should be implemented under the Convention's financial mechanism.

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* See Report of the Global Conference on the Sustainable Development of Small Island Developing States, Bridgetown, Barbados, 26 April to 6 May 1994.

Incremental costs

At the moment, the Global Environment Facility (GEF) is the only financing entity that has been designated, on an interim basis, as an operating entity of the Convention's financial mechanism. Outside the framework of the Convention, the GEF has developed a project screening policy based on a definition of incremental costs that allows funding of only the extra cost of a project that would generate "global environmental benefits," i.e. the "net" incremental cost. In the context of climate change funding, the GEF has assessed global environmental benefits only in projects associated with the reduction of greenhouse gas emissions, which provide a global benefit by reducing the concentration of greenhouse gases in the atmosphere.

The application of this interpretation of incremental costs is incompatible with both the text and the purpose of the Convention. The Convention requires that developed country Parties fund the "full" (not the "net") incremental cost of Article 4.1 measures. The GEF's present approach would appear to eliminate from funding consideration most projects related to adaptation. Moreover, it effectively renders inoperable developed country Parties' commitments to fund the bulk of the measures contained in Article 4.1 which would appear, under the GEF's methodology, to have primarily "national benefits". Finally, it should be noted that an independent evaluation of the GEF commissioned by the GEF Participants, concluded that the application of the GEF's incremental cost methodology during the GEF's Pilot Phase had not worked well in practice.

It is the COP, and not the GEF, that has the power, both under the Convention, and under the GEF's new Instrument, to decide on the policies, programme priorities and eligibility criteria related to this Convention. AOSIS is of the view that incremental costs must be defined in a way that is more compatible with the commitment to fund adaptation costs and other measures under Article 4.1. Rather than developing a detailed methodology for calculating incremental costs, AOSIS urges that the COP adopt the method used by the Parties to the Montreal Protocol. An indicative list of measures the COP considers to be appropriate for incremental cost financing should be prepared, and each individual Party would then negotiate the costs of the project through the Convention's financial mechanism and with its implementing agencies. It should be noted that such an approach is being considered by the Parties to the Convention on Biological Diversity.

Other funding sources/operating entities

Article 11.5 allows the developed country Parties to provide funding through "bilateral, regional and multilateral channels", such as bilateral assistance agencies, regional development banks and other multilateral financial institutions. These channels

may have a role to play as additional sources of funding under Article 4.1 and Article 4.4. AOSIS recognizes, however, that it was not intended that these sources would have to conform to the requirements regarding institutional restructuring set out in Article 11.1 and 11.2 in order to participate in the Convention's financial mechanism. Nevertheless, AOSIS is of the view that any funding which is being provided for the implementation of the provisions of the Convention should be new and additional and conform to policies, priorities and eligibility criteria determined by the COP.

Insurance

During the negotiations of the Convention, AOSIS developed and submitted a proposal for an insurance pool, based on precedents in other international agreements, that would allow particularly vulnerable Parties to submit claims, should damage due to sea level rise brought on by global warming take place. Among the attractive features of such a mechanism to donors is that it would only be triggered if an agreed amount of sea level rise takes place.

Since AOSIS raised its original insurance proposal, the potential emerging manifestations of climate change have begun to threaten prospects for economic development, as private insurance companies begin to withdraw from projects along small island coastlines. Small island developing States do not have the option, already exercised by a number of developed countries whose own coastlines are threatened, or requiring insurance companies to remain in high risk areas. This situation adds to the urgency and ethical imperative of revisiting the insurance mechanism as required by Article 4.8.

Integrated coastal zone management protocol

An additional opportunity for safeguarding the needs of particularly vulnerable states would be provided by the development and adoption of a Protocol to the Convention, on Integrated coastal zone management. Such a protocol was first proposed by the IPCC Coastal Zone Management Working Group and would serve to clarify agreed approaches to adaptation and related financial resources, as well as providing a framework for coordinating international efforts in this area, with the work of the Convention.

Recommendations to the INC

AOSIS, therefore, recommends the following:-

- The distribution by the INC Secretariat for consideration by delegations at INC 10, of the report of the Independent Evaluation and the Independent Panel of Experts on the GEF Pilot Phase.

- The development and adoption by the COP of an indicative list of the incremental adaptation costs to be funded under the Convention for transmittal to the GEF.

- The development and adoption by the COP of methodologies for the calculation and verification of the provision of new and additional resources by developed country Parties for inclusion in their national communication of information.

- The development of mechanisms for the coordination of bilateral, multilateral and regional financial institutions under the authority of the COP, to assist small island developing countries meet costs of adaptation.

- The consideration and adoption of the COP of an insurance mechanism to assist in meeting costs of adaptation to the adverse effects of climate change.

- The development and adoption of a protocol to the Convention on integrated coastal zone management, clarifying agreed approaches to adaptation costs and related financial resources.

C. Proposals on issues related to the financial mechanism

PAPER NO. 1: ALGERIA

(On behalf of the Group of 77 and China)

1. Article 12.1 Communication d'information

Tout en mesurant l'importance de cette question, le Groupe considère qu'elle ne revêt pas un caractère d'urgence, puisque des années nous séparent de la première obligation des pays en développement à cet égard. Toutefois le Groupe s'est concerté sur cette question et envisage de revenir au Groupe de Travail avec un document définissant sa conception de ce sujet, qui pourra servir de base de travail pour le secrétariat intérimaire. En tout état de cause, le Groupe estime que les initiatives à ce sujet lui reviennent et écarte l'idée d'une approche qui serait élaborée par tout autre organisme. Le Groupe souhaiterait tenir une réunion d'experts des pays membres du Groupe à l'occasion de la 10ème session du Comité.

2. Priorités de Programme, Renforcement des capacités endogènes

Le Groupe demande qu'une attention particulière soit accordée au transfert de techniques et à leur adaptation au contexte propre aux pays en développement visés par les articles 4.8, 4.9 et 4.10. Ceci permettra à nos pays de développer leur capacité à sélectionner, adapter et utiliser les techniques avancées et ce afin de promouvoir le développement durable.

3. Politiques

Le Groupe considère que:

(a) les activités entreprises dans le cadre de la Convention mais hors du cadre du mécanisme financier doivent être en conformité avec l'objectif de la Convention.

(b) toutes les activités entreprises hors du cadre du mécanisme financier doivent être en harmonie avec les orientations de politique arrêtées par la Conférence des Parties.

(c) les Articles 7 et 11.5 sont pertinents à cet égard.

(d) les moyens doivent être donnés à la Conférence des Parties de faire en sorte qu'aucune activité ne soit engagée au titre de la Convention qui ne soit en conformité avec l'objectif de la Convention et les orientations de politiques formulées par la Conférence des Parties.

(e) des rapports périodiques et spécifiques ainsi que des informations détaillées devront être fournies à la Conférence des Parties afin de lui permettre de remplir son rôle de supervision.

(f) le débat sur la désignation éventuelle d'autres entités chargées du fonctionnement du mécanisme financier n'est pas clos et que cette option reste ouverte.

4. Méthodes de calcul de "la totalité des coûts supplémentaires convenus"

Le Groupe émet des réserves sur le document AC/237.50/Add.1 examiné à cette session et rejette les notions de "coût brut" et de "coût net". Il considère que le document présente une vue partielle et ne reflète pas certaines conclusions formulées lors de séminaires tenus l'an dernier à Rio de Janeiro et en Inde.

Le Groupe poursuit ses consultations et présentera dès que possible une approche plus complète au sujet du concept des "coûts supplémentaires". En particulier, le Groupe estime que la définition de la situation de référence mérite d'être élaborée davantage.

PAPER NO. 2: ARGENTINA

1. Policies

The Committee agreed that the following activities should be undertaken under Article 11:

A. Activities in the Financial Mechanism

(a) The entity or entities should in all funding decisions related to the financial mechanism take into account Articles 4.1, 4.7, 4.9 and 4.10 of the Convention.

(b) Projects funded through the financial mechanism should be country driven and in conformity with and supportive of the national developmental priorities of each country.

(c) The operating entity/ies should ensure that with reference to activities involving transfer of technology such technology is environmentally sound and adapted to suit local conditions.

B. Activities outside the Financial Mechanism

(a) The activities, including those related to funding, relevant to climate change undertaken outside the framework of the financial mechanism should be consistent with the programme priorities, policies and eligibility criteria for activities as relevant, established by the COP. In order to monitor such consistency the COP should be furnished with regular reports containing details of information on activities undertaken outside the framework of the financial mechanism.

(b) In this regard the Secretariat should prepare for consideration during the tenth session an outline presenting the criteria necessary to comply with provisions contained in paragraph a).

2. Incremental Costs

(a) The Committee noted that the issue was complex and difficult and therefore further discussion on the subject was needed.

(b) Nevertheless, with regard to the concept of agreed full incremental costs, the Committee concluded that its application should be flexible, pragmatic and on a case-by-case basis.

(c) Proposals for guidelines in this regard should be developed by the COP at a later stage on the basis of experience. The secretariat was requested to continue to monitor work carried out on this matter, taking into account also views expressed by Governments and keep the Committee informed on the progress achieved.

PAPER NO. 3: AUSTRALIA

STATEMENT BY AUSTRALIA ON INCREMENTAL COSTS

1. This is a complex issue. We agree that the COP should provide broad policy guidance on the interpretation of incremental costs to the financial mechanism and that will need to develop over time. We suggest that the secretariat could develop draft guidelines for consideration by INC-10 taking into account the comments from INC-9 and the work undertaken by other bodies, in particular the PRINCE programme of the GEF. This could be used as a basis for further discussion with the GEF and other agencies. The COP may decide later on the need for further refinements of these guidelines, as appropriate, and possibly consult the SUBSTA, depending on its mandate, its other priorities and the work in this area by other agencies.

2. Our main aim is the achievement of the objective of the Convention and we would not want an overly prescriptive approach to interfere with this.

3. In para. 6 of the secretariat paper it states that the concepts of additionality and incrementality are linked in the same para. of the Convention and may be seen to constitute two complementary concepts. It goes on to suggest that as neither concept is rigorously defined and their practical application meets with difficulties, pragmatism will have to prevail in applying both concepts in practice. We agree that a pragmatic approach is essential but we do not consider that the concepts of additionality and incrementality are linked.

4. For some more detailed comments.
Australia considers that generally, a net incremental costs approach to funding should be used for calculating the costs. However the application of such an approach should be pragmatic with all direct savings to be subtracted, while other types of domestic benefits that are difficult to quantify or uncertain should not be subtracted in full. In this, we support the GEF adopting an approach similar to that developed by the WB, as covered in para. 16. In this we also support the comments by Canada in the importance of national plans or strategies in assisting the development of baselines on a country by country basis.

5. We consider that type II projects (where costs are greater than domestic economic benefits), should have the greatest priority for funding through the financial mechanism and type I projects offer the potential for early emissions reductions or development of sinks, and with a potential for considerable flow-on benefits through institutional strengthening, demonstration effects, especially on how to overcome market failures, and in encouraging the adoption of new and innovative technology, they should be considered for funding, possibly in conjunction with funding from other sources.

PAPER NO. 4: CANADA

APPROACHES TO THE DETERMINATION OF AGREED FULL INCREMENTAL COSTS

Canada welcomes the secretariat paper. The effort to synthesize material from various sources and thereby provide appropriate background information for our discussions is the kind of approach that serves the Working Group well. The merit of this type of synthesis report has also been mentioned earlier this week in relation to other topics.

We would have liked to know more about the state of progress of the considerable work currently being undertaken by various bodies to give shape to the concept.

In our view, the incremental cost concept is of central importance to the operation of the financial mechanism. We recognize the many complexities involved. Many of the considerations attached to this notion deal with methodological and operational questions that need to be related to a project or country context. Such considerations are more appropriately addressed by the operating entity; of course the COP should be in a position to provide general policy guidance.

Issues related to incremental costs are evolving and we do not have a sufficient basis as yet to progress much further in our discussions. It will be important for this group, and indeed for the COP as a whole, to take account of developments related to incremental costs on a periodic basis, and respond as appropriate.

This points to the appropriateness of requesting the secretariat to assume a monitoring function on incremental costs and prepare summary reports to feed into future discussions. As well, we would recommend that the operating entity be requested to report on the application of incremental costs as part of its regular reporting arrangements with the Convention.

In our view, incremental costs relate to three important questions;

- How do you define in operational terms the distinctiveness of the financial mechanism in relation to other sources of funding ?;

- How do you establish a basis for assessing alternative courses of action?; and

- How do you allocate costs ?

A structured, method-based approach is required to address these questions.

Mr. Chairman, we believe that the country context and national planning process should provide the appropriate basis for the determination of allowable costs. The application of baseline analysis will have to take into account the differences in a country's starting point and approach, economic structure, technology and resource base, the need to maintain sustainable economic growth, as well as the other individual circumstances.

Consistent with current experience, Canada favours a basic approach that attempts to capture all relevant costs while discounting only those local benefits that are direct, clear and tangible. We must seek in this way for an appropriate balance that provides the incentives required to sustain host country participation and continuing support for the activity. The key principle underlying policy and technical considerations will be to ensure that investible resources are channelled to projects and programs with the highest environmental, social and economic returns.

Canada believes that a flexible approach should be taken in the determination of agreed incremental costs. However, the very nature of the concept dictates that some rigour will be required in its definition.

PAPER NO. 5: FINLAND

MATTERS RELATING TO ARRANGEMENTS FOR THE FINANCIAL MECHANISM

The document A/AC.237/L.20/Add.2 calls for comments and proposals on issues related to the financial mechanism of the Climate Change Convention. Taking into consideration what the above document already contains, Finland wishes to offer the following comments and proposals:

1. At the ninth session of the INC/FCCC the progress of the Working Group II was somewhat slow. This was partly due to the GEF restructuring and replenishment negotiations that were not completed prior to the ninth INC meetings in Geneva. As the GEF II negotiations have been completed successfully now we believe that the next INC meeting in August has much more ground to build on concerning the financial mechanism.

Policies

2. In general, we feel that an appropriate flexibility between the COP and the financial entity should be maintained. The COP is to provide general policy guidance. Therefore decisions on the actual implementation of such concepts as full incremental costs and forms of financing to name but few may be left for the entity and recipient countries. This flexibility should also apply to modalities for functioning of operational linkages. It is important also to assure coherence between the new GEF instrument and decisions made by the COP.

Eligibility of countries

3. Document A/AC.237/L.20/Add.2, para 11 (b) refers to the eligibility criteria of countries. In accordance with the new GEF instrument we suggest to add. A developing country Party is eligible for funding from the financial mechanism if it is eligible to borrow from the World Bank (IBRD and/or IDA) or if it is an eligible recipient of UNDP technical assistance grants.

4. We reiterate the importance to seek means to assist the countries in economic transition outside the financial mechanism of the convention as the emissions of these countries indeed have a great importance to the global atmosphere.

Eligibility of activities

5. Regarding eligibility of activities we would like to note that most of the selection criteria developed by GEF/STAP for the pilot phase remain valid. Accordingly, the projects/programmes should be:

- beneficial to the global environment in terms of reducing greenhouse gas emissions or contributing to their removal by sinks.
- based on sound technological and scientific basis. We however wish to note that a certain degree of insufficiency of data can be acknowledged which can be taken into consideration in the project preparation cycle
- cost-effective
- country driven and consistent with national priorities
- supportive to promotion of development of local institutional, technical, economic or environmental capacities and sound framework conditions

6. As appropriate, funding should be based on national strategies and plans. Formulation of the national plans can be seen as part of the process for national communications fully covered under article 12.1 of the convention.

7. As to the issue of funding of costs of adaptation we reiterate the call for more information.

Priorities

8. In view of the limited financial resources available, activities producing the greatest reductions in greenhouse gas emissions shall be accorded high priority maximizing the ratio between the invested resources and actual reduction of emissions. Support to the immediate measures to reduce the specific emission levels of human activities is therefore needed including reduction of emissions from existing sources as well as support to structural changes to curb future emissions. It would also require development of substitute technologies that could lead ultimately to the enhancement for the utilization of non-emitting energy sources. Cost effectiveness rather than equal geographic distribution should determine the funding priorities. We also wish to emphasize the importance sinks have in this context. Therefore due attention is to be given to such measures as combatting deforestation and supporting reforestation and afforestation as well as sustainable management of existing biomass resources.

9. Ultimately the above approach may call for a global strategy for mitigation activities being supportive to national priorities and development prerequisites and that could be considered by COP at its forthcoming meetings. It may also require a shift from a single project basis towards a more coherent programme basis contributing to achievement of clearcut global objectives.

PAPER NO. 6: INDIA

Policy Guidance to the Financial Mechanism

1. The operating entity/entities shall keep in mind the provisions of Art. 4.7, 4.8, 4.9 and 4.10 of the Convention before taking decisions on funding.

2. The operating entity/entities shall ensure that activities being funded shall be in conformity with the national developmental priorities of each country.

3. The operating entity/entities shall ensure that with reference to activities involving transfer of technology such technology shall be indigenized and adapted to suit local conditions.

4. Lack of or insufficient scientific information shall not be a reason for rejection of any activity for funding.

PAPER NO. 7: POLAND

(On behalf of several Annex I countries
undergoing the process of transition to a market economy)

I should like to address the Working Group on behalf of several Annex 1 countries undergoing the process of transition to a market economy: Estonia, Hungary, Latvia, Lithuania, Romania, the Russian Federation, Slovakia, and my own country, Poland.

I should like to refer the Working Group to the joint statement made by the delegations of Hungary and Poland, at the eighth session of the INC/FCCC, on 27 August 1993, the text of which is available to the Committee in document A/AC.237/Misc.31. In that statement, we stressed the significance of the commitments which had been made by the countries undergoing the process of transition to a market economy, in particular those commitments which aim at the stabilization of anthropogenic emissions. Concurrently, we noted the widely acknowledged socio-economic, technological and political factors involved for countries belonging to the EIT group.

According to the Convention, the Parties shall achieve the objective of the Convention and implement its provisions "in accordance with their common but differentiated responsibilities and respective capabilities." In this connection, we wish to reiterate that the provisions of the Convention reflect not only the common concerns, but also the compromises of the delegations which negotiated its text.

For their part, in negotiating the terms of the Convention, the group of countries undergoing the process of transition to a market economy granted full consideration to the substantial and specific needs and the special circumstances of the developing countries. In particular, the EIT group of countries agreed with other groups that the financial mechanism of the Convention will be defined as outlined in Article 11, in accordance with the needs of the developing country parties for the purposes determined in Article 4(3).

With reference to the factors mentioned in document A/AC.237/Misc.31, the position of the EIT group of countries is that these countries are eligible for assistance under the Convention, particularly as provided for in Article 4(5): in execution of their commitments, in accordance with the Convention, and under the guidance of the COP but outside the financial mechanism defined by Article 11. EIT countries should be eligible for transfer of, or access to, environmentally sound technologies and know-how.

We propose that the following text be included in the final version of document A/AC.237/50 and in the Committee's report of the ninth session:

Annex 1 countries undergoing the process of transition to a market economy not being eligible in the context of the financial mechanism of the Convention in relation to Article 4(3), will, pursuant to the Convention, be eligible for assistance measures outside the financial mechanism, in particular for those measures regarding the transfer of, or access to, environmentally sound technologies and know-how, in accordance with Article 4(5), and other measures to limit GHG emissions and increase their removal by sinks.

PAPER NO. 8: SWEDEN

ISSUES RELATED TO THE FINANCIAL MECHANISM FOR THE CLIMATE CONVENTION AND WORKING GROUP II - ITEMS

1. In the light of the successful outcome of the negotiations of the GEF 14-16 March in Geneva we want to stress the necessity to finalize the negotiations on policy guidelines, programme priorities and eligibility criteria for the financial mechanism for the FCCC at the next session of the Committee.

2. At the next session, it is important to devote considerable time to discussion on format and content of the communication of information from developing countries for them within the time-limit of 3 years from the entry into force of the Convention to fulfil their obligations under Article 12.1. Not all of the developing country Parties have an endogenous capacity today that can make them fulfil these obligations. The discussion should build upon inputs from the group of experts at the meeting to be convened by G77 and China at the next session, provided that this meeting takes place early during the session. The discussion should also be based on the document that the committee requested the secretariat to prepare. Communication of information is a priority within the Convention for which the "agreed full costs" are to be met.

3. To be able to reach consistency between funding from the financial mechanism and from other sources the policy guidelines etc. for the financial mechanism should be communicated to other sources of financing outside the mechanism. Country Parties should work actively to have those guidelines adopted also as guidelines for funding by other entities, multilateral as well as bilateral when the purpose of the funding is the same as is the case within the FCCC.

4. The issue of incremental costs could be the subject of a seminar discussion at the next INC/FCCC meeting. The seminar could be based on the progress report by the secretariat, the PRINCE-project, examples of case studies in different countries to be specified. The outcome of the discussions could serve as a basis for further negotiations.

5. On the issues of countries that are "particularly vulnerable to the adverse effects of climate change" the secretariat should be asked to make a report from the outcome of the Conference on Small Island Developing States held at Barbados from 25 June to 6 May 1994 so that the Committee should take into consideration the findings from the conference.

PAPER NO. 9: UNITED STATES OF AMERICA

STATEMENT OF THE UNITED STATES ON POLICY GUIDANCE TO THE FINANCIAL MECHANISM

The United States would like to thank the G-77 and China for the paper that they have submitted on this subject. The paper provides some very useful ideas, and we appreciate this opportunity to comment on each of the five proposals:

1) On the first proposal, we strongly supported the idea that the operating entity or entities should keep in mind the provisions of Articles 4.7 to 4.10, as proposed in the initial paper presented yesterday by India.

   We question, however, the usefulness of an additional reference to Art. 4.1, as suggested by China. We do not understand the purpose of this reference. If this is to be included, it might be more efficient simply to reference Article 4 in its entirety.

   We would like to suggest, however, that Art. 3.3 might be added to the list. This would allow the deletion of the paper's paragraph 4, with which we have serious concerns as it is currently formulated.

2) We also agree in principle with paragraph 2 in the document – that projects funded through the financial mechanism should be country driven and be in conformity with, and supportive of, national development priorities.

   This approach is in accordance with the current direction of negotiations for a restructured GEF. It also supports our repeated emphasis on the importance of national communications under Art. 12.1 which will serve to inform the entity or entities.

   We do question, however, whether an operating entity can ensure such conformity. This is one reason why government approval of GEF projects is required and appropriate.

   We would therefore suggest the following minor change in language:

   > "Projects funded through the financial mechanism should be country driven and be in conformity with, and supportive of, national development priorities."

3) With regard to the third point, we certainly agree that technologies transferred should be appropriate and environmentally sound. We are unclear, however, on what is meant by "indiginized."

Therefore we suggest the following wording:

> "The operating entity/entities shall ensure that with reference to activities involving transfer of technology such technology should be environmentally sound and adapted to suit local conditions."

4) Mr. Co-Chairman, as I mentioned before, we have grave concerns about Paragraph 4 as it is currently worded, and request that it be deleted.

We naturally agree with Article 3.3 of the Convention – that lack of full scientific certainty concerning climate change should not impede precautionary measures.

We must insist, however, that any specific activities to be funded be based on the best available scientific and technical information, and be subject to a competent scientific and technical review before funding is approved.

We feel very strongly about this point, and request that language to this effect be included as policy guidance from the CoP to the Financial Mechanism:

> "Activities to be funded by the Financial Mechanism should be based on the best available scientific and technical information, and be subject to a competent scientific and technical review before funding is approved."

Fifth, under Article 11.2, the financial mechanism must have an equitable and balanced representation of all Parties within a transparent system of governance. Would "existing international entities" need to change their governance structure in order to meet the requirement of Article 11.2?

Finally, would the inclusion of more than one "operating entity" of the financial mechanism increase the problem of coordination and oversight, and could it require establishing a new subsidiary body devoted only to this purpose ?

As I indicated, this is a list of initial thoughts that occurred to my delegation. We believe that a great deal further study and consideration will need to be given to issues such as these before our Working Group would be in a position to adopt any firm view.

5) Finally, Mr. Co-Chairman, we understand Paragraph 5 in this document to refer to those activities of the operating entity that are funded through the financial mechanism. Therefore, while we would certainly not oppose this restatement of Art. 11.1, we question the utility of merely reiterating the guidance already stated in the Convention in Art. 11.1

Once again, we would like to thank the Group of 77 and China for these useful ideas, and hope that our proposals are helpful.

PAPER NO. 10: UNITED STATES OF AMERICA

STATEMENT OF THE UNITED STATES ON ADDITIONAL OPERATING ENTITIES

Algeria, on behalf of the G-77 and China, said this morning that adaptation should be covered by the financial mechanism, and proposed exploring the possibility of additional operating entities. We noted this proposal carefully, and in fact spent some time yesterday afternoon and evening considering this very issue.

We consulted briefly yesterday with some delegations, and we had hoped to consult further today during the lunch hour. Unfortunately, others' schedules were too full. So, we would like to offer some preliminary thoughts, in the form of questions and observations, on behalf of this delegation. We believe, however, that a number of the points we will make may be shared by other delegations.

I would note also that the Secretariat's paper (A/AC.237/50) suggests in paragraph 24 that it may be useful to adopt a phased approach to this issue. In particular, the Secretariat's paper asks, "On what criteria and at what stage should entities other than the interim entity be given consideration."

We note that any obligations not funded through the convention's financial mechanism can be funded through the channels identified in Article 11.5. Therefore, this raises a threshold question – is there any advantage to entrusting part of the financial mechanism's operation to additional international institutions ?

We note that article 4.3 and Article 4.4 contain different financial obligations for Annex II countries; if the same vehicle (the financial mechanism) were used to meet both kinds of obligations, would the essential difference between these obligations become blurred ?

- Article 4.3 requires that Annex II Parties provide "new and additional financial resources"; it also requires that funding be provided to meet "agreed full incremental costs"; it refers to developing countries generally

- Article 4.4 does not refer to "new and additional financial resources"; it does not specify the portion of costs to be provided; and it refers only to "particularly vulnerable" developing country Parties

A third area of concern arises with respect to Article 11. Under Article 11.1, operation of the financial mechanism may only be entrusted to "existing international entities". We wonder what incentive they would have to become "operating entities" of the convention's financial mechanism ?

- "Operating entities" are part of a financial mechanism; the financial mechanism must function under the guidance of and be accountable to the Conference of the Parties

- As part of the financial mechanism, "operating entities" must follow the policies, programme priorities and eligibility criteria established by the Conference of the Parties in their funding activities related to the convention

- "Operating entities" would need to agree with the COP on arrangements called for in Article 11.3; Article 11.3(b) (reconsideration of a particular funding decision) and 11.3(d) (determination of funds necessary and available) may raise particular concerns

Fourth, under Article 11.1, the financial mechanism must provide financial resources "on a grant or concessional basis." With this requirement, we wonder whether MDBs could become additional "operating entities" ?

- MDBs do not provide grants (except in extremely limited cases)

- MDBs (unlike multilateral development funds, such as IDA) do not lend on concessional terms; they lend at market rates

- Multilateral development funds lend on concessional terms, but lend only to certain developing countries.